



The retention ratio:

$$\frac{\text{Net Position}}{\text{Pool Retention}}$$

A pool's per occurrence retention is the total estimated loss-per-risk a pool retains on its balance sheet as a liability, not including ceded risk to a reinsurer or excess insurer or taking members' deductibles into consideration. When that risk is measured against net position (which might also be called "member equity" or "surplus"), the pool can evaluate adequacy of its surplus to withstand multiple large losses within its retention.

A general rule of thumb for the insurance industry is that no retained occurrence should expose more than ten percent of the carrier's net position, which equates to a retention ratio of 10:1 or just 10. Pools are often more conservative than insurance companies in order to preserve long-term stability for members, which often means retention ratios are greater than 10. Pool outcomes between 10 and 70 are quite common.

Imagine a pool has \$4 million in member equity with a retention of \$100,000 per occurrence. The retention ratio is 40. Forty is a promising outcome, since the pool could sustain 40 retention level losses before surplus was completely drained. Results above 70 percent suggest the pool might have the ability to take on more risk or a higher retention level. Results at the low end of the range - say 10 - suggest a pool may want to decrease retention or work to increase net position.

In soft markets when reinsurance is cheaper per unit, it may be favorable to carry a lower per occurrence retention (and therefore a higher retention ratio). Of course, there are many factors that could come into play for any pool's net retention analysis, such as growing or shrinking membership, statutory limits on net position or surplus, changing reinsurer relationships, and more.

Similar to the [contribution leverage ratio](#), the retention ratio is based on a pool's net exposure to loss after reinsurance or excess insurance has been considered.